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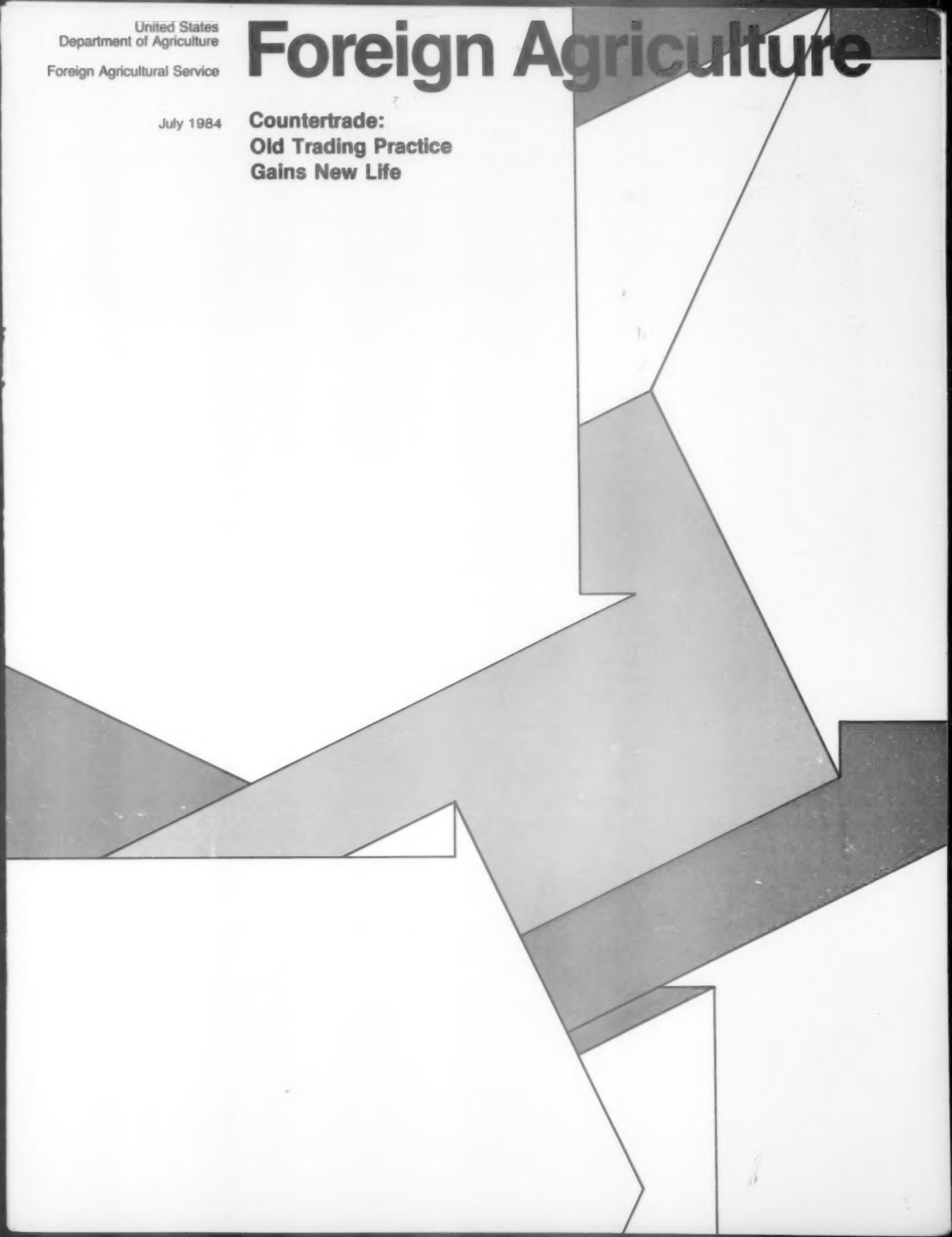
Countertrade: Old Trading Practice Gains New Life



Marketing News

Thai Sandwich Program Benefits From USW Help

In Thailand, where per capita wheat consumption is quite low, **U.S. Wheat Associates (USW)** is involved in a number of programs to introduce new wheat-based food items to the public. One of the best methods of encouraging consumption is to reach school children, who are willing to try something new. Roughly 10 elementary schools in the Bangkok area were selected for a recent sandwich promotion campaign. The sandwiches were filled with native products, such as chili fish or spicy chicken, which appeal to the children's traditional taste preference. For about 75 percent of the children, this was their first sandwich. "It was extremely gratifying to see the enthusiastic response," said Thomas Mick, USW vice president for South Asia.

USW currently is monitoring the sale of bread in the local shops and grocery stores in the vicinity of each school to determine what effect this campaign is having on sales. Early indications are that sales have increased tremendously. One USW board member in Asia to review the organization's market development activities commented, "It was extremely gratifying for me, as a wheat farmer, to see on the children's faces the enjoyment of trying a product for the first time and liking it."

Sorghum Leaders Assess Italian, Middle Eastern Market Potential

A team that recently traveled to Italy, Saudi Arabia and Egypt returned with reasons to be positive about the outlook for export growth to that region, according to team leader Elbert Harp, executive director of the **Grain Sorghum Producers Association (GSPA)** and member of the **U.S. Feed Grains Council's** board of directors.

Livestock producers in these countries have been reluctant to use sorghum because of poor performance among livestock by the high-tannin brown sorghum grown in many parts of the world. U.S. yellow sorghum does not contain the high tannin levels associated with brown sorghum and offers significant nutritive and feeding efficiency advantages over brown sorghum. The team laid the groundwork for future U.S. sorghum sales by showing potential users the differences between the two sorghums, as well as exploring other constraints to U.S. sorghum sales.

In Italy, the European Community's levy policy poses as much of a disadvantage to sorghum shipments as traditional prejudices against sorghum itself. Harp said the EC should set separate levies for Argentine and U.S. sorghum. Italy currently imports about 20 percent of its 10,000-ton requirement from the United States.

In Egypt, the team found considerable potential for growth in sorghum sales, particularly in the poultry sector. Preliminary plans were made to conduct poultry/sorghum feed trials. However, sorghum sales to this market suffer because Egypt subsidizes imports of other feed grains, but not sorghum, making it less attractive for use as a feed component.

Saudi Arabia also holds considerable potential for sorghum use in poultry rations though none of its 500,000 tons of sorghum imports currently come from the United States.

Harp cautioned that sales to these three countries will not materialize without further work, but that the potential certainly is worth that effort.

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Planning an Export Venture: The Road to Success

By Alice Gray

Exporting is practical and profitable—not just for giant corporations, but also for small and medium-sized firms with limited resources. In fact, almost any U.S. firm with a good product or service to sell may have export potential. Almost without exception, successful ventures into exporting are preceded by thorough preparation and planning.

Since exporting requires an extension of your firm's resources, assessing your export potential should be the first step in embarking on your export venture. You should analyze industry trends, your firm's domestic position in the industry, the effects exporting may have on your present operation, the status of your resources, and the anticipated export potential of your product.

After a thorough evaluation of your firm's position, the most important question you should ask yourself is: How committed am I to exporting, recognizing it as a major investment in time and resources that may not pay off for six months to a year?

Get Expert Counseling

Once you have made a firm decision to commit your time and resources, you need to get expert counseling and assistance.

Counseling is available from a number of sources. USDA's Foreign Agricultural Service is the primary federal agency responsible for promoting U.S. farm exports.

Through a global network of agricultural specialists and representatives, FAS gathers, assesses and disseminates information on world agriculture and trade and provides information on world crop policies and markets.

FAS works closely with State departments of agriculture and agricultural trade associations. Local representatives from these groups are good sources of information about exporting. They can provide valuable material about foreign markets for U.S. farm goods, financing aid to exporters, tax advantages of exporting, international trade exhibitions, export documentation requirements and much more.

Trade associations also can connect you with companies with export experience. Experienced firms—sometimes even direct competitors—can be among the most valuable sources of information for new exporters.

Commercial banks are another important resource. They can advise on export regulations; assist in financing exports; collect foreign invoices, drafts, letter of credit, and other foreign receivables; transfer funds to other countries; write letters of introduction and letters of credit for travelers; and provide credit information on potential buyers overseas.

Private consulting groups are also sources of information. However, before selecting a firm, you should examine samples of the firm's work and, if possible, obtain recommendations from some of the firm's clients.

Selecting Markets

Armed with expert counseling, you are ready to select one or two "ideal" markets from the hundreds available. Obviously, this choice will have an immediate impact on the organization of your company's export operation. Language and cultural differences, special trade regulations, local competition and economic conditions, and other vital factors must be taken into account to maximize your success abroad.

FAS is an excellent place to begin your exploration. Through a worldwide system of microcomputers and electronic communications, FAS gathers trade leads and connects active foreign buyers with sellers of specific U.S. commodities.

FAS also has a label clearance program which can provide U.S. companies with valuable information concerning foreign countries' import requirements and policies related to specific products of interest. However, keep in mind that entry of your product into an overseas market is subject to final permission by the foreign government at the port of entry.

Food shows are another area of interest to active as well as potential exporters. FAS coordinates U.S. participation in a number of international food exhibitions which attract buyers and exhibitors from many nations.

In addition, "solo food shows," showing U.S. foods exclusively, are organized by FAS agricultural representatives. Overseas exhibitions not only generate on-site sales, but also allow exporters to establish important business contacts and learn about the markets firsthand.

Formulate an Export Strategy

Your export venture should be backed up with an export marketing strategy. In general, a successful marketing strategy identifies and correlates at least four factors that jointly determine the best kind of export operation for you: 1) your export objectives, 2) specific tactics your firm will use, 3) a schedule of activities and deadlines that reflect your objectives and tactics, and 3) allocation of resources among scheduled activities.

Your marketing plan and schedule of activities should cover a two- to five-year period, depending on the kind of product

you are exporting, the strength of competitors, conditions in the target markets and other factors. As you shape your export marketing plan, it is a good idea to prepare a written draft or outline of each important stage in your formulations.

Your final plan should be as clear and definite as a legal contract. Since this plan will guide your export operation, until your company is firmly established in its chosen market, it is far too important to be left in a vague, abstract form.

All employees with a major role in formulating export policy or directing your export operations should receive a copy of your written plan. They should also be kept current on any subsequent changes.

Select a Selling Technique

Your next step should be to select a selling technique. There are two basic selling techniques in exporting: direct and indirect selling.

The decision to market products directly or, alternatively, to utilize the services of an intermediary, should be made on the basis of several important factors: the size of your firm, the nature of its product(s), previous export experience and expertise, and business conditions in the selected overseas market.

Direct Sales

In direct selling, the U.S. firm deals with a foreign importer and is usually responsible for shipping the products overseas. However, direct selling may include utilizing the services of foreign sales representatives or agents.

In selecting the method, the product involved and the way it is marketed in the United States will provide a clue as to how it might be marketed internationally. The customary business methods and established channels of distribution in targeted foreign countries may also have a bearing on the marketing channel selected. The following are some of the methods you may want to consider.

Sales representatives or agents—A sales representative is the equivalent of a manufacturer's representative here in the United States. Product literature and samples are used to present the product to potential buyers.

The sales representative usually works on a commission basis, assumes no risk or responsibility and is under contract for a definite period of time (renewable by mutual agreement). The contract defines territory, terms of sale, method of compensation and other details. The sales representative may operate on either an exclusive or nonexclusive basis.

Distributors—The foreign distributor purchases merchandise from a U.S. manufacturer at the greatest possible discount and resells it at a profit. Since distributors buy for their own accounts, it is easier for the U.S. manufacturer to establish a credit pattern so that more flexible or convenient payment terms can be offered.

As with a sales representative, the length of association is established by contract, which can be renewed if the arrangement proves satisfactory.

Foreign retailer—Foreign retailers generally limit themselves to consumer products. Usually an exporter's traveling representative directly contacts the retailers and makes the sale. Depending on the product, however, similar results may be accomplished by mailing catalogs, brochures or other literature. The direct mail approach can eliminate commissions and traveling expense, but a firm that uses it may find that its proposal is not receiving proper consideration.

Direct sales to end-users—This method is limited and depends on the product. Opportunities often arise from advertisements placed in magazines distributed overseas. Often, however, this can create difficulties because casual inquirers may not be fully aware of their countries' foreign trade regulations. For various legal reasons, the inquirer might be unable to receive merchandise upon arrival. The goods then would be impounded and possibly sold at public auction, or returned on a freight collect basis that could prove costly.

Indirect Sales

With indirect selling, the U.S. firm with a product to export relies on another firm that acts as a sales intermediary. Normally the intermediary will market and ship the products overseas.

Indirect marketing gives smaller firms with little export expertise a way to penetrate foreign markets without having to get directly involved in the complexities of exporting. There are several distinct types of intermediary firms, each with its own advantages for the manufacturer.

Commissioned agents—Commissioned or buying agents are "finders" for foreign firms that want to purchase U.S. products. They seek to obtain the desired items at the lowest possible price and are paid a commission by their foreign clients.

Country-controlled buying agents—These are foreign government agencies or quasi-governmental firms empowered to locate and purchase desired goods.

Export management companies—EMCs act as the export department for several manufacturers of noncompetitive products. They solicit and transact business in the name of the manufacturers they represent for a commission, salary or retainer plus commission. Many EMCs will also carry the financing for export sales, ensuring immediate payment for the manufacturer's products.

Export trading companies—ETC's are firms that purchase U.S. goods for resale in foreign markets. They assume the risk associated with international trade by taking title to the goods domestically and performing subsequent export operations.

The Ten Most Common Mistakes Of New-To-Export Firms

In exporting, as in many things, there is no substitute for experience. The following common mistakes and pitfalls offer you a chance to profit from errors made by other U.S. exporters who have preceded you over the years.

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- **Failure to obtain qualified export counseling and to develop a master international marketing plan before you start an export business.** Unless your staff has considerable export expertise, you will need qualified outside guidance.

- **Insufficient commitment by top management to overcome the initial difficulties and financial requirements of exporting.** Although the early delays and costs involved in exporting may seem difficult to justify compared with your established domestic trade, you should take a long range view of this process and plan to shepherd your international marketing efforts through these early difficulties. If you lay a good foundation for your export business, the benefits derived should eventually outweigh your investment.

- **Insufficient care in selecting overseas agents or distributors.** The selection of each foreign distributor is crucial. The complications involved in overseas communications and transportation require international agents or distributors to act with greater independence than their domestic counterparts. Also, since a new exporter's history, trademarks and reputation are usually unknown in the foreign market, your foreign customers may buy on the strength of your distributor's reputation. Therefore, you should carefully evaluate the personnel handling your account, the distributor's facilities and the management methods employed.

- **Chasing orders from around the world instead of establishing a basis for profitable operations and orderly growth.** New exporters should concentrate their efforts in one or two geographical areas until there is sufficient business to support a company representative. Then, when this initial core area has expanded, you can move into the next selected geographical area.

- **Neglecting export business when the U.S. market booms.** Too many companies turn to exporting when business falls off in the United States. When domestic business starts to boom again, they tend to neglect their export trade or relegate it to a secondary place. Such neglect can seriously harm the business and motivation of their overseas representatives.

- **Failure to treat international distribution on an equal basis with domestic counterparts.** Often companies carry out institutional advertising campaigns, special discount offers, sales incentives programs and special credit-term programs within the U.S. market, but fail to make similar assistance available to their international distributors. This is a mistake that can destroy the vitality of your overseas marketing efforts.

- **Unwillingness to modify products to meet regulations or cultural preferences of other countries.** Local safety and security codes, as well as import restrictions, cannot be ignored by foreign distributors. If the necessary modifications are not made at the factory, the distributor must make them—usually at greater costs and, perhaps, not as well. The resulting smaller profit margins also make your account less attractive.

- **Failure to print services, sales and warranty messages in locally understood languages.** Although your distributor's top management may speak English, it is unlikely that all sales personnel will have this capability. Without a clear understanding of sales messages or service instructions, lower level personnel may be less effective in performing their functions.

- **Failure to consider use of an export management company or other marketing intermediary.** If a firm decides it cannot afford its own export department, it should consider appointing an appropriate intermediary.

- **Failure to consider licensing or joint-venture agreements.** Import restrictions in some countries, insufficient personnel or financial resources or a limited product line may cause some companies to dismiss international marketing. Yet nearly any product that can compete on a national basis in the United States can be successfully marketed abroad. A licensing or joint-venture arrangement may be the simple, profitable answer to your problems. In general, all that is needed for success is flexibility in using the proper combination of marketing approaches.

Economies of scale, often unavailable to the small or medium-sized firms individually, are generated by exporting large volumes of products from many sources at lower per-unit costs through an established network of overseas offices. This keeps costs for transportation, insurance and warehousing to a minimum.

The steps discussed in this article are the most critical ones for new-to-export firms. They are of course not the only ones, but they help you cross the bridge into exporting—from what you plan to do to making the venture a reality. ■

The author is on the staff of Business America, the U.S. Department of Commerce's bimonthly magazine for U.S. exporters (see advertisement on inside back cover). This article has been adapted from that magazine to reflect USDA services for U.S. exporters.

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Tiny Hong Kong A Big Market For U.S. Horticultural Products

By Steve Homrich

The outlook for U.S. horticultural exports to Hong Kong remains bright, especially for exporters offering superior quality and consistency, or a product differentiated in some manner—such as having a western appeal.

Only one-third the size of Rhode Island, tiny Hong Kong's 5.4 million residents make it the most densely populated spot in the world. Most people work in manufacturing, commerce or financial services and rely heavily on imports for food.

In addition, the construction of western style food outlets—including hotels, restaurants, modern supermarkets and 100 7-Eleven stores expected to be in operation this year—is increasing the future need for imports, especially of processed products.

Last fiscal year, Hong Kong bought over $344 million of U.S. agricultural exports and over half were for horticultural products.

Hong Kong ranks second in per capita consumption and third in total consumption of U.S. horticultural exports. In fact, Hong Kong residents spend an average of $28 per person for U.S. horticultural products each year.

FAS works with several trade organizations which are actively promoting canned cling peaches and fruit cocktail, raisins, table grapes, french fries, apples, cherries, citrus and lettuce in Hong Kong.

Under the cooperator program, FAS is working with the California Cling Peach Advisory Board, the California Raisin Advisory Board, the California Table Grape Commission, the National Potato Promotion Board, and the Northwest Horticultural Council.

Under its Export Incentive Program, FAS works with private firms including Bud Antle, Inc. for lettuce, and Sunkist Growers Inc., Puregold, Inc. and Sun World, Inc. to promote citrus products.

Western Tastes Boost U.S. Sales

Growth in the colony's western-oriented institutional trade has been a significant factor in the surge in horticultural imports from $286 million in 1976 to $683 million in 1982.

Consumers are increasingly adopting western eating habits and with high per capita income, they are able to purchase quality U.S. foods.

The appeal of U.S. products has prevented major competitors from infringing on the 25-percent market share enjoyed by U.S. exporters since 1975. While China, Japan and Taiwan benefit from lower freight rates, their portions of the market have remained fairly steady at 42 percent, 10 percent and 6 percent, respectively. Vietnam, Singapore, the Philippines and Australia hold small—but growing—shares of the market.

Oranges, Apples and Grapes Top List

Oranges, apples and table grapes accounted for 60 percent of the value of U.S. farm sales to Hong Kong in 1983. Over the last five years, orange and apple exports have grown at annual rates exceeding 14 percent, while table grape sales rose by 12 percent annually until last year when they dipped by a third.

U.S. exporters now have 81 percent of the market for imported oranges; 65 percent for apples; and 77 percent for table grapes.

China, the major competitor for oranges and apples, has not increased sales to Hong Kong as rapidly as the United States, despite significantly lower prices.

For oranges, Australia and South Africa appear to pose a greater long-term threat with their rapidly growing sales to Hong Kong.

U.S. apple exports are maintaining healthy growth, while competitors are losing sales.

U.S. grape exporters, although still dominant in the Hong Kong market, face increased competition from Thailand and Australia.

Growing Demand for Processed Foods

Processed products have the greatest market growth potential. U.S. exporters can be especially competitive for convenience goods because freight charges constitute a lower percentage of the unit value of processed foods and brand awareness tends to be high. Sales of U.S. catsup, sauces, frozen french fries, wine and canned goods have grown substantially over the last five years.

China a Major Competitor

China is a major sales competitor because of its closeness and relatively low prices. Average unit import values of Chinese fresh vegetables, raisins, lemons and beer are considerably under U.S. prices. Even so, U.S. exporters dominate all but the fresh vegetable market and growth rates have equaled or exceeded those of Chinese exporters for all four products.

China's position as a horticultural competitor is likely to strengthen, however, as a result of the uncertainty governing the Colony's political future. The planned takeover of Hong Kong by China in 1997 when Great Britain's lease expires has contributed to depreciation of the Hong Kong dollar against the U.S. dollar. The high value of the U.S. dollar has effectively increased the price of U.S. products in the Colony. ■

The author is with the Horticultural and Tropical Products Division, FAS. Tel. (202) 447-6086.

Market Development Contacts

FAS' agricultural officer in Hong Kong is developing programs to promote U.S. horticultural products in many Hong Kong food outlets. For information on these programs contact:

Agricultural Officer
Box 30
FPO San Francisco, CA 96659
Tel: (011-852-5) 239-011.

Mailing lists of Hong Kong importers of health food products, fresh potatoes, fresh fruits and vegetables, frozen vegetables, flowers and plants, confectionary products, tree nuts, ginseng and other horticultural food products are available from:

Horticultural and Tropical
Products Division, Room 6603-S
Foreign Agricultural Service
U.S. Department of Agriculture
Washington, D.C. 20250
Tel: (202) 447-6086

Trade leads on current market opportunities are also available from FAS as part of its Agricultural Information and Marketing Services (AIMS) program.

There are basically two parts to the trade lead service:

—A direct-mail service for those interested in foreign trade inquiries for specific agricultural products, such as catsup, frozen french fries or fresh apples.

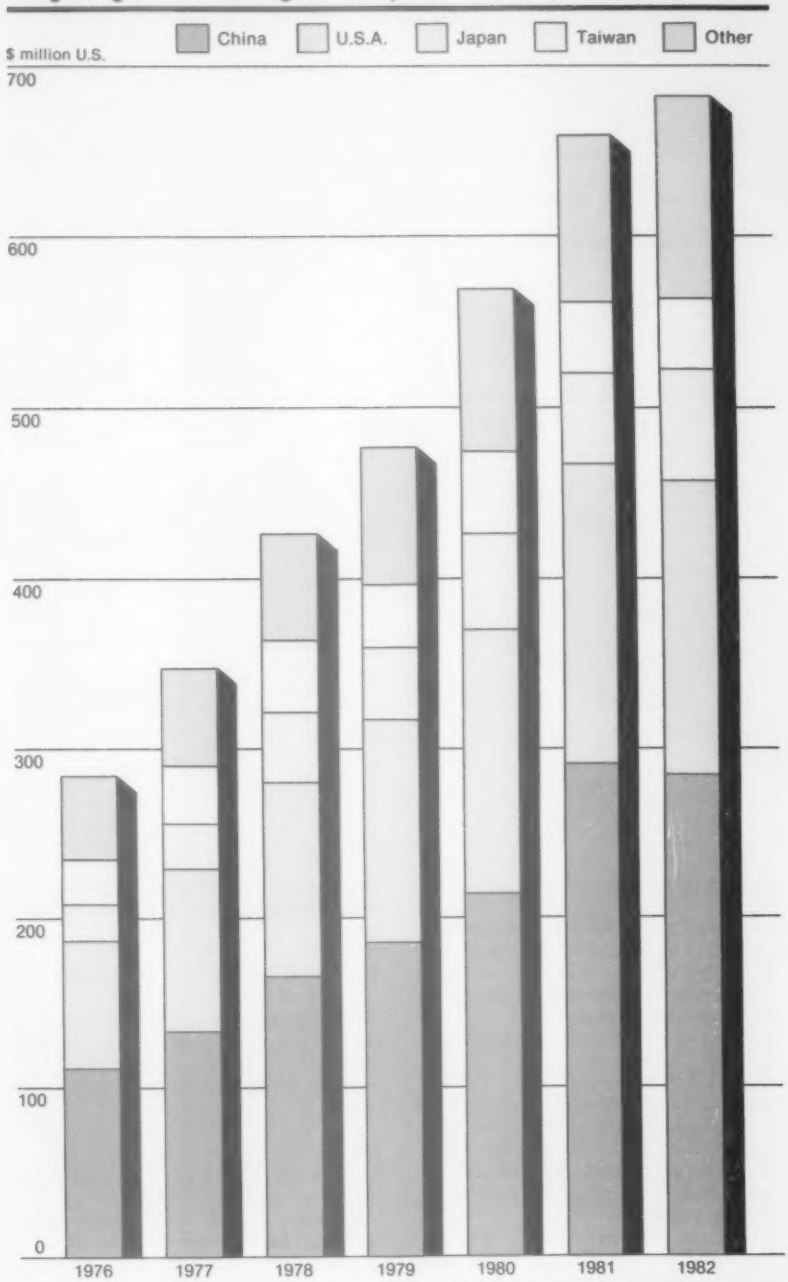
—A weekly trade letter—Export Briefs—containing all trade inquiries received during a week and covers a wide range of agricultural products and news of trade shows and other trade developments.

There are fees for both services.

FAS also makes the trade leads available electronically on a daily basis.

For additional information on these services contact:
AIMS, Room 4645-S
Foreign Agricultural Service
Washington, D.C. 20250
Tel. (202) 447-7103.

Hong Kong's Fruit and Vegetable Imports Double in Seven Years



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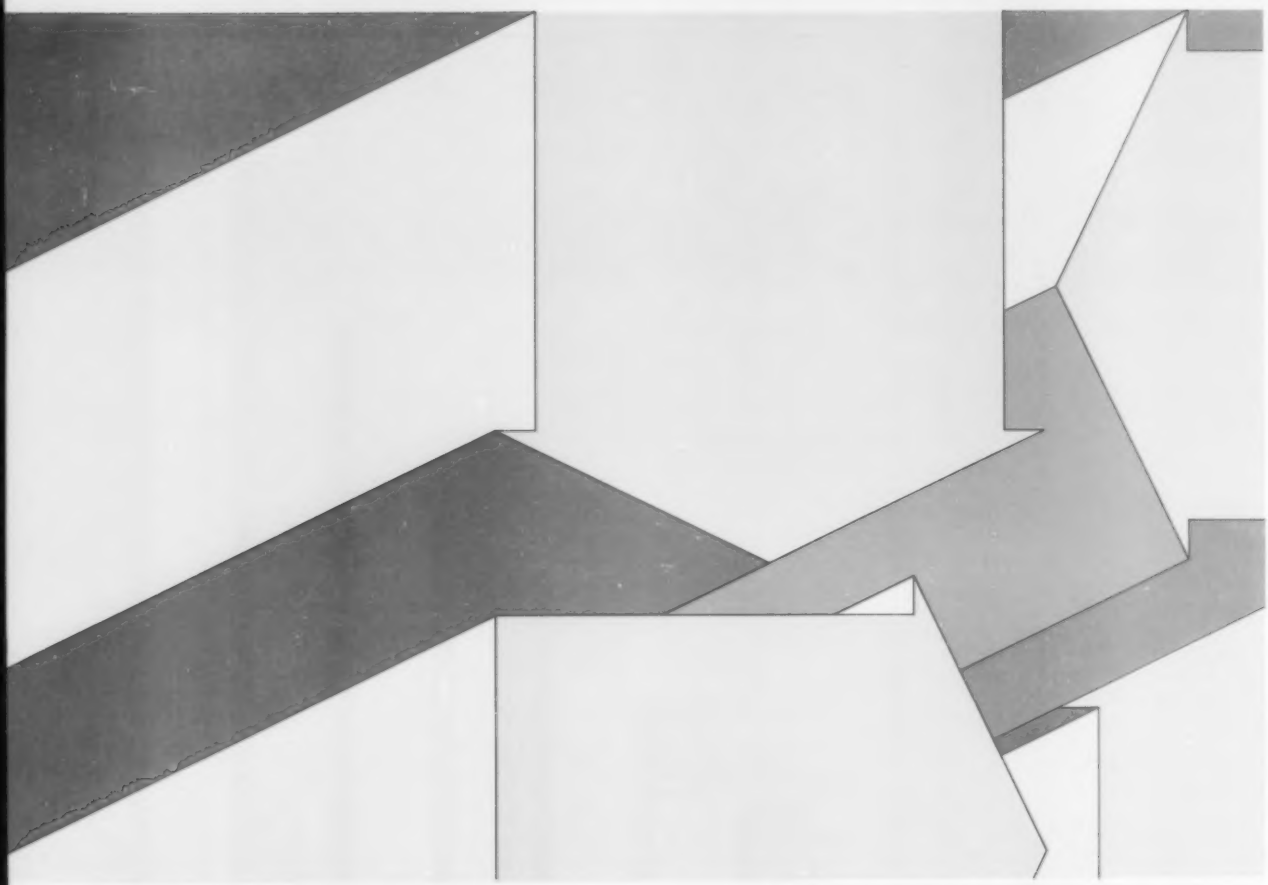


By Leo G. B. Welt

The shift from barter, the world's oldest method of trading, to banking took many thousands of years. Now, however, some U.S. businesses interested in expanding their international trade activities are turning the clock back to barter once again.

Many companies seeking to do business in developing and socialist nations are finding that selling in these parts of the world requires a willingness to receive payment in forms other than cash or letter of credit.

The new form of payment or financing is generally referred to as *countertrade*. That term covers a variety of business arrangements where payment is made by means other than just a cash-for-goods basis.

The Rapid Growth in Countertrade

While countertrade is not most companies' preferred way of transacting international business, countertrade arrangements have risen rapidly in recent years.

For example, one-half of all new contracts in East-West trade probably involve some form of countertrade. Back in 1976, the U.S. Commerce Department estimated the total at only about 28 percent.

Private trade experts calculate that countertrade may now amount to one-third of world trade, or more than $700 billion. And projections by the U.S. Department of Commerce suggest that by the year 2000, half of all world trade will be countertrade.

There are a number of reasons for the surge in countertrade. Among the more important are:

—the sharp rise in energy prices during the last decade which has caused severe financial problems for a number of developing economies. New lines of credit often are not available to the countries in the worst financial shape, plus they are burdened by enormous interest payments on loans they already have.

—the ambitious programs for industrialization in developing countries rich in resources but short of cash. Many of these countries are pushing for countertrade as a way to market their commodities and raw materials, and gain foreign exchange and technology to stabilize their economies.

In China, for example, Premier Deng Ziaoping has specifically cited countertrade as an important means of paying for China's industrialization and economic development programs.

—poor marketing channels and marketing expertise in many developing and socialist countries. These countries have a great need to develop export markets and countertrade can help them get their foot in the door.

—import restrictions imposed by governments in order to cut their foreign currency drain. The International Monetary Fund reported in 1981 that 23 countries required countertrade purchases, where the value of imports must equal the value of exports.

How To Organize for Countertrade

Countertrade is not the way most U.S. firms prefer to do business for some very good reasons—it increases the cost, which must be added to the price, it requires more executive time, and it is an attorney's dream because of the many contract considerations.

So remember, if your company gets involved with countertrade, it will require more planning and commitment than straightforward trading where cash is the only form of payment.

In the ideal countertrade deal, a company receives goods that it can use internally or pass along to its established customers. A company considering entering into countertrade obligations consequently should begin by preparing lists of products, commodities, and services that it can use internally.

However, if a company has to market countertrade goods outside its established customers, new marketing measures and channels need to be employed. The form of these new measures depends on the size of the company and the amount of goods to be countertraded.

Here's a list of some of the arrangements that U.S. businesses have devised to hire or train experts in countertrade and to find markets for countertraded goods:

—Employing a countertrade specialist (consultant) to help the company from the first countertrade proposal to the disposal of the countertraded goods.

—Employing a trading house to dipose of the goods. These houses can help market goods; arrange for their transportation, warehousing, and insurance; assist in financing; and help upgrade countertrade commodities.

Remember, however, trading houses charge substantial commissions—anywhere from 0.5 to 20 percent. The sum must be figured into the price of the goods when the original deal is made. Also, companies dealing in goods which are difficult to dispose of may be confronted with additional discounts—anywhere up to 40 percent, or maybe even more.

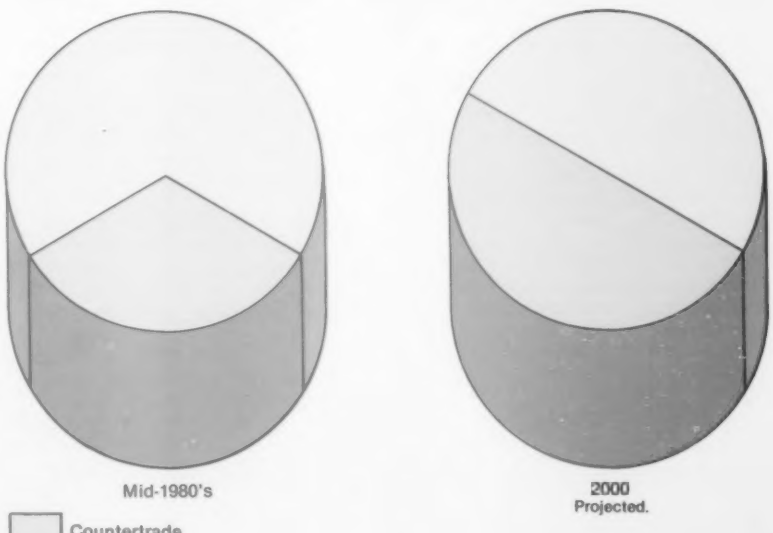
—Establishing a trading company subsidiary whose sole purpose is to market countertraded goods. These trading companies are only feasible for companies that do a lot of outside purchasing, or which have countertrade demands made on them frequently by their customers.

—Creating a countertrade division or attaching the countertrade unit to an existing part of the corporate structure. The form of this arrangement again depends on the size of the company and the amount of countertrade anticipated.

In some smaller, non-diversified manufacturing firms, the countertrade staff is often part of the purchasing department.

Another arrangement, recommended by some experts, is for the countertrade unit to be under the vice-president for sales or international operations, with good lines of communication to marketing, legal and financial executives. The countertrade unit should also be involved in long-term company planning.

Countertrade Represents Sizable Portion of World Trade



A Countertrade Glossary

Countertrade arrangements can be roughly divided into the following categories:

Barter: This is the easiest form of countertrade to understand: goods for goods. An example of how large a barter deal can be is the $20-billion, 10-year agreement between Occidental Petroleum Corporation and the Soviet Union, exchanging super-phosphoric acid from the United States for ammonia from the Soviet Union.

A 1982 exchange of 50,000 tons of Brazilian soybeans for 50,000 tons of Mexican blackbeans was also a pure barter deal. Just a few months ago, Brazil and Qatar made a $2-1/2 billion deal exchanging crude oil for such varied Brazilian products as cement and textiles, among other items.

Counterpurchase: In this type of arrangement, a company sells equipment or products to another company or party, receiving cash and goods as payment. However, a clause in the purchasing contract requires the vendor to counterpurchase a given percentage of the contract value in the form of goods from the buyer's country.

Counterpurchase agreements can be useful tools for companies seeking to enter new markets. McDonnell Douglas Corporation's success in Yugoslavia is a good example.

In exchange for a major Yugoslav purchase of DC-9 passenger jets, McDonnel/Douglas bought back canned hams, hand tools, and other products and services. McDonnell Douglas also encouraged its employees to fly on JAT-Yugoslavia Airlines and to vacation on that country's Adriatic seashore. That kind of agreement helped McDonnell Douglas gain an edge over competitors such as Boeing, Bristol, and Airbus Industries of France.

Compensation: This form of countertrade, also called buy-back, is often a part of an industrial cooperation agreement, or a joint venture without equity. In this agreement, a vendor sells machinery, equipment technology, or a turnkey plant, and receives the resultant products as full or partial payment.

In one example, International Harvester Company sold technology for making crawler tractors to the Polish foreign trade organization, Bumar. International Harvester agreed to buy back a percentage of the components made at the Polish plant for use at its plants in Western Europe.

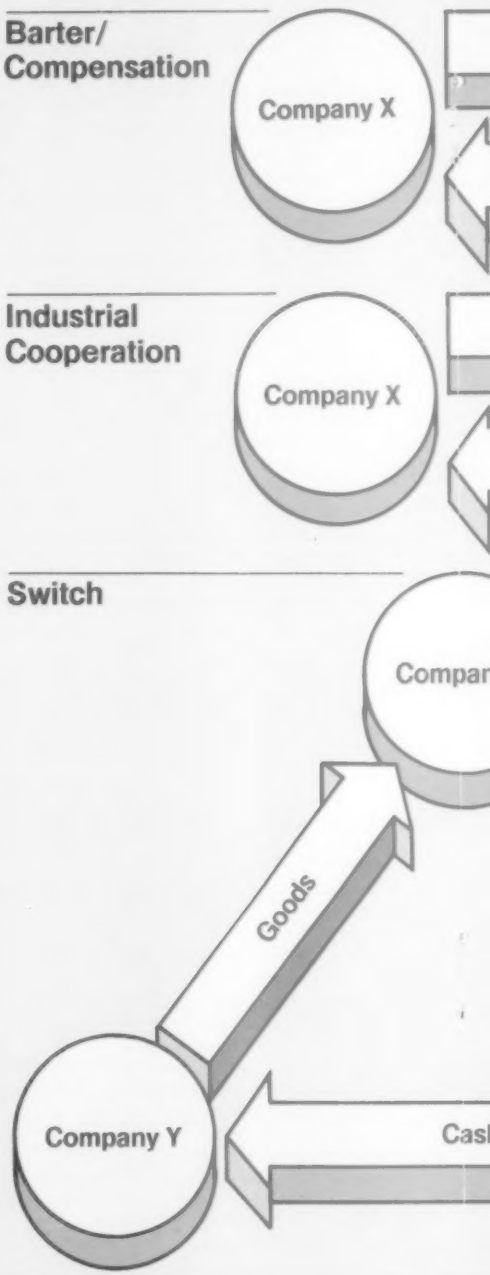
Swap: Swap agreements are a simple concept whereby products from different locations are traded to save transportation costs. This is ideally suited for commodities such as sugar, metals, crude oil and chemicals.

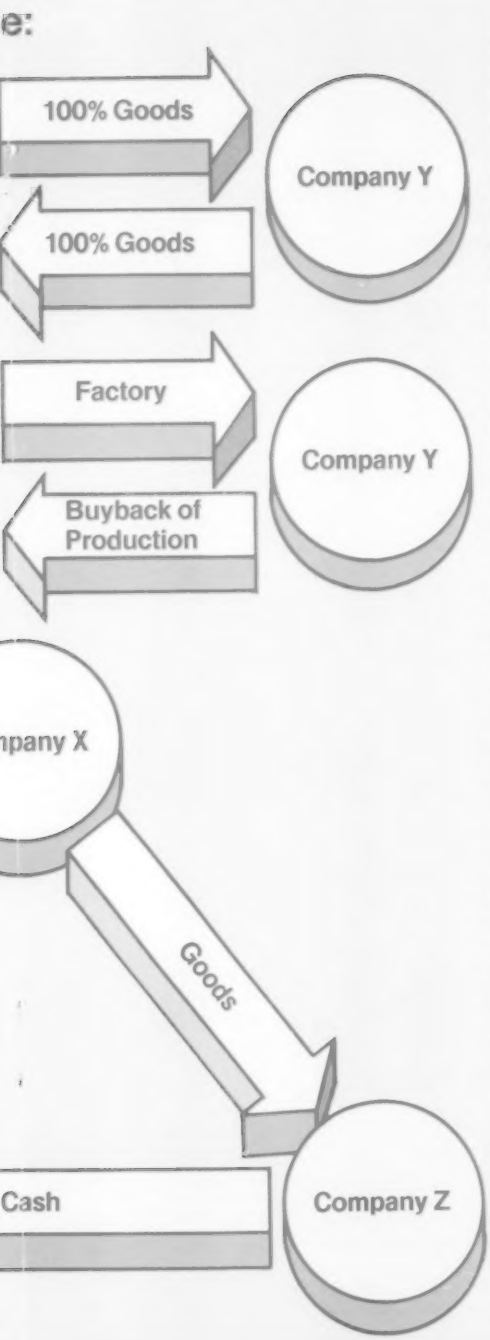
An example is the 1983 swap of Soviet oil bound for Cuba and Venezeulan oil heading to the West German refinery, Gelsenkirchen. The Soviets supplied oil to Venezuela's customers in Western Germany, and Venezuela supplied oil to Cuba, with both countries saving considerably on transportation.

One essential feature of swap transactions is that the difference in quality of the goods being substituted must be clearly defined in contractual terms.

Clearing: Clearing is a bilateral agreement between two countries requiring both parties to purchase specified amounts of each other's products over a specified period of time. The countries also agree to use a designated "clearing currency" in the transactions, such as the U.S. dollar, the French franc or some other freely convertible currency. An additional feature of many clearing agreements is the clause that allows the transfer of all or part of the bilateral balance to a third party.

Examples of Countertrade:





Since clearing agreements help countries maintain balanced trade and help assure a continuous and fairly reliable export market, they are common in the developing world and in countries with state-controlled economies.

Switch or triangular trade: This method of countertrade is useful in times of uneven or sluggish international currency flow. It allows any party to a bilateral trade agreement to transfer its imbalance to a third nation or party. This imbalance is sometimes known as "the swing."

Switch trading was very popular right after World War II, but has declined in importance since then. An Austrian switch specialist estimates that today it amounts to only about $600-$800 million.

An example is the use by 3M Company of a clearing agreement between Hungary and Brazil. 3M's European office used the Hungarian portion of the agreement to ship industrial adhesives to Brazil. 3M benefited because it was able to work within Brazilian import restrictions and sell its products; Hungary benefited by a commission on the sale; and Hungary and Brazil could continue to say their bilateral agreement was adhered to.

Evidence account: In an evidence account agreement, a company sells goods or services to a foreign trade organization, for which it receives a payment which must be deposited in the buyer's national bank of foreign trade. Within a certain period of time, usually a year, the seller is required to buy certain products from another foreign trade organization.

If the account is not balanced within the set time period, it is sometimes possible to carry the balance forward.

Blocked currencies: When a company cannot repatriate its holdings or funds from a country because of currency restrictions, a number of measures can be taken to get products out of the country which then can be sold for cash.

Some companies purchase local products with local currencies and export them. Another rather novel solution has been to make a motion picture in the country using the blocked currencies, then making money from royalties when the movie is shown outside the country.

A project that began as an effort to spend blocked currencies was the production of the movie "The Ninth Configuration" in Hungary.

Pepsico, Inc., which has an agreement with the Hungarians to provide syrup for Pepsi, made plans to pay for the film's production costs as a way to spend blocked currencies.

In this particular case, when the project got underway, Pepsico's blocked currency reserve had been used up. However, the Hungarian government accepted the spending of the funds for the movie's production in lieu of countertrade requirements usually made when the Hungarians bought the soft-drink syrup. Pepsico owns half the movie rights and will receive royalties from box office receipts.

The Greek government recently passed a decree that authorizies similar arrangements for foreign companies that have blocked funds in that country to use their money to make films.

Off-set: This typically is a countertrade deal involving a military contract. Arrangements often include co-production, where the customer manufactures a component or components in exchange for the products to be bought. They may also involve joint ventures, technology transfers or tourism. ■

The author is president of Welt International Corporation, Washington, D.C. and author of two books on international trade, "Trade Without Money" and "ETC's For U.S. Exporting." Tel. (202) 371-1343.

Fact File

P.L. 480: Food for Peace Program Marks Its Thirtieth Anniversary

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) has been the basic foreign food aid instrument of the U.S. government since its approval July 10, 1954. In 30 years almost 653 million pounds—worth over $33 billion—of U.S. farm products have been programmed to more than 1.8 billion people in over 100 countries.

Included were wheat and wheat products valued at $14 billion, rice valued at $3 billion, corn at $1.1 billion, and other grains at $1.5 billion. Also moving through P.L. 480 during the history of the program were dairy products totaling $2 billion, and cotton valued at $2.6 billion.

In this decade, annual allocations have averaged around $1.5 billion, with Title I (sales programs) predominanting over Title II (donation programs) in a dollar ratio of about three to two. Title III (food for development) is an extension of Title I. The Public Law 480 program is administrated by USDA's General Sales Manager.

Evolution of P.L. 480

In the beginning, recipient countries paid for U.S. agricultural commodities with their own currencies. The United States used these currencies to replace foreign exchange it otherwise would have spent on U.S. operations abroad. Over time, however, P.L. 480 was altered to minimize foreign currency sales and include non-surplus commodities. Major landmarks in the program include:

- In 1959, Congress added a provision to require the more developed recipients to pay for P.L. 480 commodities in dollars, but on extremely liberal credit terms.

- In 1966, the law was amended again to require a progressive transition for all recipients from purchases in their own currencies to purchases in dollars, or in local currencies which could eventually be exchanged for dollars. Amendments also deleted reference to U.S. surpluses, and it became U.S. policy to use this country's agricultural productivity to combat hunger and malnutrition abroad.

- Further amendments to P.L. 480 have re-emphasized the importance of self-help efforts in recipient countries and assured that the bulk of concessional commodity sales would go to the poorest and neediest nations.

Program Descriptions

Title I provides for U.S. government financing of sales of U.S. agricultural commodities to friendly countries. Sales are made by private businessmen, usually on a bid basis in response to tenders issued by the importing countries. Agreements may provide for one of two methods of long-term credit financing: sales for dollars, or sales for foreign currencies convertible to dollars.

Title II is the donation program of P.L. 480. It authorizes donations of food for alleviating famine and for other urgent or extraordinary relief, for combating malnutrition, especially in children; for providing economic and community development in friendly developing areas; and for assisting needy persons and nonprofit school lunch and preschool feeding programs abroad. It also provides for government-to-government donations, donations through international agencies, and donations through U.S. voluntary agencies.

Title III, sometimes known as Food for Development, emphasizes the use of P.L. 480 for economic development in countries meeting the International Development Association's criterion for development loans—currently those with gross national per capita product of $805, or less. Basically Title III can be used to turn a Title I loan into a grant. When countries with approved development proposals use proceeds from domestic sales of Title I commodities (or the commodities themselves) for approved projects, the dollar equivalent of the Title I loan is forgiven.

Estimated Value of P.L. 480 Export Shares by State[1]

[1]The figures provided in this table are derived and do not reflect actual shipments. The reference "Export Shares" is used because as commodities proceed through the production cycle they may transit through a number of states thereby making it difficult to assign a point of origin for the final product

[2] Less than $100,000.

Sales Procedures

Negotiation of agreements. Sales agreements are negotiated with foreign governments through diplomatic channels. In most cases, they are conducted overseas by U.S. Embassy officials under the direction of the U.S. Ambassador. Governments of friendly countries that usually export commodities included in the agreement are consulted to insure that Title I sales do not disrupt normal free world commercial trade.

Kinds of commodities. The Secretary of Agriculture determines the kind and quantity of commodities available for inclusion in Title I agreements. Specific programs are developed in consultation with several agencies and departments of the Federal government, including the Departments of State, Treasury, and Commerce, the Agency for International Development and the Office of Management and Budget.

Eligibility of commodity suppliers. U.S. commodity suppliers interested in making export sales of commodities under Title I are required to submit information including: a current financial statement; a background statement with particular reference to export experience, responsibility, and the ability to perform the obligations imposed by P.L. 480 regulations; and names and addresses of chief executive officers of the companies involved including affiliates, branches and associated firms.

Maintaining normal marketing. An agreement will usually impose requirements to maintain normal imports of agricultural commodities from commercial sources in the United States and other free world countries. These are called "usual marketing requirements" (UMR's). They are required to insure that Title I sales will not unduly disrupt world agriculture commodity prices and normal patterns of commercial trade with friendly countries or with the United States. Agreements always prohibit resale or transshipment of Title I commodities in order to insure that these food aid commodities are used to increase consumption in the needy recipient country.

Purchasing procedures. After an agreement has been signed, the importing country applies to FAS' P.L. 480 Operations Division for a purchase authorization (PA). A PA is usually issued for only part of the total amount of one of the commodities in the agreement; thus, several successive PA's may be issued under a single agreement. The PA includes such details as the particular grade or type of commodity to be purchased, the approximate quantity of the commodity and the maximum dollar amount authorized, the period during which contracts may be entered into, and the time span during which deliveries must be made. The conditions under which financing will be made available for the commodity sales and many authorized ocean transportation costs are also outlined in the PA. Normally, the earliest that contracts may be entered into is seven days after the date the PA is issued.

Payment to suppliers. U.S. commodity suppliers usually are paid promptly in dollars under letters of credit issued through the commercial banking system. The Commodity Credit Corporation (CCC), a part of the Department of Agriculture, will reimburse U.S. banks for payments made under the Title I regulations. Most agreements provide for payment by the importing government, upon delivery, of at least 5 percent of the purchase price. This payment is made to the U.S. commodity supplier through the U.S. commercial bank handling the letter of credit. The portion of the purchase price to be financed by CCC will be stated in the purchase authorization if it is less than 100 percent.

Methods of financing. The purchase authorization will provide for financing of commodities either by a letter of commitment or by reimbursement by the importing country. In the latter case, the importing country guarantees immediate payment to the supplier out of its own dollar resources. The country then applies directly to the CCC for reimbursement of its dollar expenditures.

Under a letter of commitment, which is the more common payment method, the importing country requests that CCC issue a letter of commitment to the U.S. bank designated by the importing country promptly after the PA is signed. The CCC thereby guarantees to repay the U.S. bank, through a named Federal Reserve Bank, in dollars for eligible payments the U.S. bank makes to commodity suppliers against proper documents under letter of credit.

U.S. flag requirement. At least 50 percent of the gross tonnage of commodities bought under Title I must be shipped on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates. If ocean transportation is required to a country where there is no U.S. flag vessel service, a foreign flag vessel will be used at its prevailing rate. For all Title I sales agreements, CCC financing is limited to payment for the differential for using when U.S. flag vessels.

Arranging transportation. Arrangement for ocean transportation of commodities bought under Title I PA's is made either directly by officials of the importing government or by their appointed agents. The pertinent terms of all proposed charters or liner bookings, regardless of whether any portion of ocean freight is financed by CCC, are sent to the appropriate USDA office for review and approval prior to contracting of the vessels.

Further information. USDA issues press releases when agreements are signed and PA's are issued. Persons who wish to receive P.L. 480 press releases, which automatically cover all commodities, should write to the General Sales Manager, U.S. Department of Agriculture, Washington, D.C. 20250. U.S. firms or individuals who wish to receive copies of PA's should write to the P.L. 480 Operations Division, Foreign Agricultural Service, U.S. Department of Agriculture, Washington, D.C. 20250, or telephone (202) 447-3664.

Title II—Foreign Donations

Voluntary agencies. The voluntary agencies distribute the largest portion of the Title II commodities, typically around 70 percent. These include Cooperative for American Relief Everywhere (CARE), Catholic Relief Services, Inc. (CRS), Church World Service (CWS), Lutheran World Relief (LWR), American Joint Distribution Committee (ADJC), the Seventh Day Adventist Welfare Service (SAWS) and the Cooperative League of the U.S. (CLUSA). This food assistance is distributed through child centers, school feeding programs, maternal child health centers, and food for work projects.

World Food Program (WFP). Another program sponsor is the World Food Program, established in 1963 by the United Nations and the Food and Agriculture Organization (FAO) with strong U.S. encouragement. The program provides food to developing countries for economic and social development projects and for emergencies. Special emphasis is given to projects related to maternal health, preschool child feeding and labor intensive and rural development projects, usually in the least developed countries and countries most severely affected by rising raw material prices.

Food Aid Convention. The Food Aid Convention of the International Wheat Agreement obligates signatories, of which the United States is one, to provide minimum annual amounts of food aid in wheat or coarse grains for human consumption. The Convention, which was initiated in 1968, was extended in 1976, in 1978, and again in 1979. About half of the U.S. obligation is met through Title II and the other half through Title I.

1983 Wrapup

U.S. agricultural exports under P.L. 480 declined by about a tenth in 1983 to $1.14 billion. Volume was about 5.6 million metric tons. Title I long-term credit sales rose slightly in value to $756 million and represented about two-thirds of concessional government-financed programs in 1983. Shipments under Title II donations totaled $286 million and 1.4 million tons, down 25 percent from the previous year.

Wheat accounted for about half of the value of Title I shipments last year. Of the 19 countries which made purchases under this program, the biggest buyers were Egypt, Sudan, Morocco, Bolivia, Sri Lanka and El Salvador. Rice, the second leading export item, totaled about $132 million. Principal buyers under Title I were Indonesia, Somalia, Peru, Liberia and Bangladesh.

For Title II, about half of the donations were through voluntary relief agencies, one-third through the World Food Program, and the remainder under government-to-government arrangements.

India, Poland and Peru received over half the voluntary relief donations. Wheat and wheat products, soybean oil and nonfat dry milk were the major donated commodities. Pakistan and India received about half of the World Food Program donations. Bangladesh, the largest recipient of government-to-government wheat shipments, received over half the total value.

The 1984 Program

This year, the United States will spend about $1.5 billion under P.L. 480 to purchase and transport an estimated 6 million metric tons of some 25 commodities to more than 80 nations.

Title I agreements will continue to account for the largest quantities. For fiscal 1984, $738.5 million in commodity assistance has been earmarked for 31 countries, equivalent to 3.6 million tons of agricultural commodities. An additional $52.5 million has been set aside for unforeseen needs. The largest allocations are $250 million for Egypt, $65 million for Bangladesh, $50 million for Pakistan and $50 million for Sudan.

Title II donations will account for 1.8 million tons valued at $740 million.

New Group To Conduct Poultry and Egg Marketing

By Wayne Seney

The USA Poultry and Egg Export Council, under the sponsorship of the Southeastern Poultry and Egg Association of Decatur, Ga., has taken over the international trade marketing activities for the U.S. poultry and egg industry.

Formerly, such activities were the responsibility of the Poultry and Egg Institute of America (PEIA), which ceased operations as a market development cooperator in March.

No changes have been announced in overseas staff or activities in Hamburg, London, Tokyo, Hong Kong and Singapore where industry marketing representatives were located. Also, marketing activities will continue with contract representatives in North and South Africa and the Middle East.

Industry Support Essential To Bring Exports Up

The new council will step up efforts to bring in more poultry and egg companies than before—those that have not previously participated in overseas marketing, says Harold Ford, Southeastern's executive vice president.

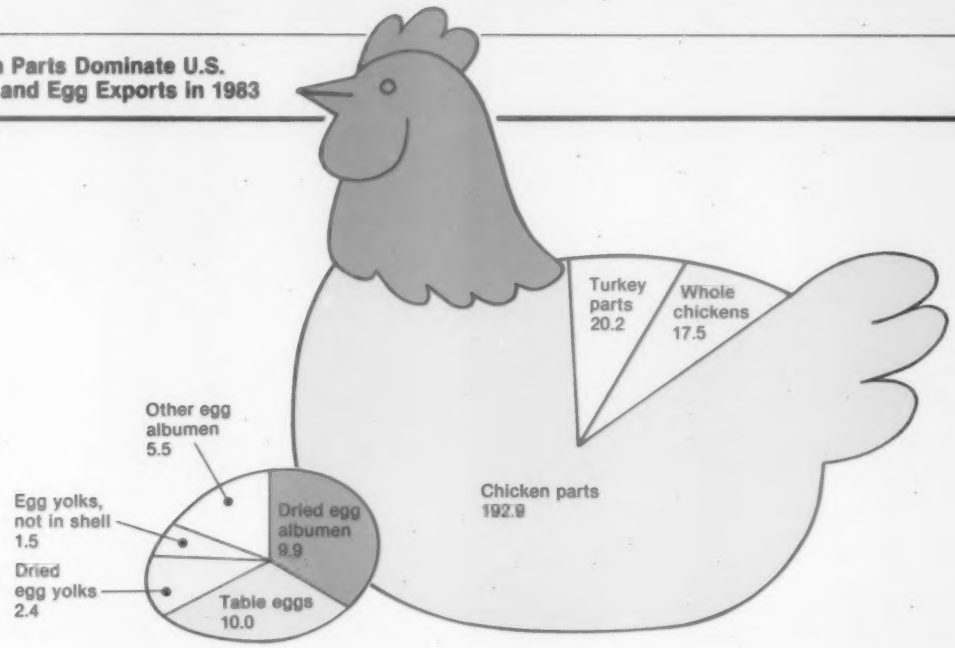
"We want to get industry working more actively with overseas personnel and get broader financial support for marketing activities.

Tom Chestnutt, newly elected president of Southeastern, agrees that the international program will continue to need wide industry support to get U.S. exports back on an upward trend. Also, he says, "Southeastern wants those involved in export marketing to let us know who their company contact is, the products they export and the area into which they are best suited to market."

The council will form a 15-member board of directors made up of industry representatives to periodically evaluate the marketing program. "We want to make sure our exporters are in tune with needs in foreign markets.

Chicken Parts Dominate U.S. Poultry and Egg Exports in 1983

$ million



Chicken and Egg Product Sales Mixed in Major Markets

Market	Chicken parts			Egg products		
	1982	1983	Change 1982–83	1982	1983	Change 1982–83
	$ Thousand		Percent	$ Thousand		Percent
Japan	57,757	79,800	+38	25,858	13,379	−48
Singapore	29,795	23,961	−20	92	113	+19
Hong Kong	24,317	20,124	−17	486	375	−23
Canada	8,710	10,566	+21	1,079	1,406	+30
Neth.-Antilles	7,860	6,829	−13	30	11	−63
Jamaica	7,852	5,587	−29	5	26	+520
Mexico	6,926	3,824	−45	570	0	−100
Total world	**190,076**	**192,957**	**+ 2**	**37,695**	**19,260**	**−49**

For more information, contact the USA Poultry and Egg Export Council, 1456 Church Street, Decatur, Ga. 30030, Tel. (404) 377-6465.

Exports To Rise in 1984

The export council begins its first year of operation during a period when the poultry and egg industry is facing extremely stiff competition abroad.

However, after a 17-percent drop in poultry and egg exports from $514 million in 1982 to $427 million last year, exports are forecast to rise about 5 percent to $450 million in 1984.

The 1984 growth is expected to hinge on a rise in the price of chicken parts; volume is expected to remain steady.

Chicken part exports were $190 million in 1982 and rose slightly to about $193 million 1983. Exports to Japan, the largest U.S. market for chicken parts, were up substantially from $57.7 million in 1982 to $79.8 million in 1983.

Whole broiler exports, however, declined last year because of the strong U.S. dollar and subsidized competition from Brazil and the European Community. Also, exports of eggs and egg products declined from $37.7 million in 1982 to $19.3 million last year because of a decline in most major markets.

Major markets for total U.S. poultry and egg products also bought substantially less last year than in 1982. Purchases by Mexico were down 95 percent in volume while sales to the United Arab Emirates fell 92 percent; Hong Kong, 41 percent and Canada, 38 percent. ■

The author is with the Dairy, Livestock and Poultry Division, FAS, Tel. (202) 447-2208.

Country Briefs

Brazil

Poultry Sales in Japan Up Sharply

Brazilian poultry is beginning to penetrate the Japanese market. Sales are still quite small—1,071 metric tons in 1983—but are rising rapidly. Japanese contracts for imports of Brazilian poultry meat during 1984 are estimated at 7,000 to 10,000 tons, according to Japanese trade sources. Trade sources indicate that the Brazilian chicken parts are expected to compete directly with Thai imports and domestic Japanese production.

Brazilian poultry has appeal in the Japanese market for several reasons. The chicken, for example, is packaged for the Japanese market in the same manner as Japanese and Thai products. The meat is white in color, like Japanese and Thai meat, because hard scalding is used. Further, Brazilian and Thai poultry products are sized for every 20 grams—like Japanese production—and are vacuum packed when put into the export pipeline for Japan. Not many poultry packers in the United States provide this sizing service and most layer-pack their products even when exporting for Japan.

However, transportation distances are much greater for the Brazilian product—45 days versus 15 days from the U.S. West Coast—which adds greatly to freight rates. In addition, the difference of one month in transportation time for Brazilian versus U.S. products means additional interest and three times more containers in order to ensure a smooth flow of products between Japan and Brazil.—*William L. Davis, Jr., Agricultural Counselor, Tokyo.*

Hong Kong

Chilean Fruits Make Market Inroads

Hong Kong traders have begun showing great interest in Chilean fruits, particularly grapes. Hong Kong's grape imports from Chile are expected to increase considerably in 1984, following more than a hundredfold increase in 1983 which pushed Chile into the No. 2 supplier slot. The United States remains in the top spot with sales of 8,017 tons in 1983.

The big attraction of the Chilean grapes, according to importers, is their competitive price and the fact that they are available when U.S. grapes are out of season.

Chilean pears and apples are also making inroads into the Hong Kong market. Apple sales, for example, jumped from 9 tons to 109 tons between 1982 and 1983. Many of the Chilean fruit imports are re-exported to Taiwan, Malaysia and Singapore.—*Michael Humphrey, Agricultural Officer, Hong Kong.*

Japan

U.S. Share of Cotton Imports Swells to Over Half

Japanese raw cotton imports during the 1983/84 marketing year (August-July) will probably total 3.2 million bales, and the U.S. share seems virtually certain to be at least 50 percent compared to 40 percent in the past three years. The increase in our share is primarily because of smaller imports from other major suppliers, particularly the Soviet Union. Japanese imports of Soviet cotton are likely to be less than one-fourth the 1982/83 figure.

Shipments from Australia, a Southern Hemisphere supplier, will be below the 1982/83 level since the 1982 crop declined. Some shipments of Pakistani cotton have arrived but the total for 1983/84 will be well below last year's level. While China is making a sizable percentage increase in its exports to Japan, it is not expected to ship more than 100,000 bales to the Japanese market during 1983/84.

Only a small increase is expected in the volume of Japanese cotton imports during the 1984/85 marketing year since the Japanese cotton spinning industry will continue to face heavy textile imports and strong competition from synthetic fibers.

Another development of note in Japan's fiber market is the announcement by the Synthetic Fiber Association of plans for a 10-year campaign to boost sales of synthetic products. The association believes such a campaign is necessary because of the growing consumer preference for natural fiber products.—*William L. Davis, Jr., Agricultural Counselor, Tokyo.*

Korea

Surge in Vegoil Use Favors U.S. Soybean Sales

Korea's vegetable oil consumption has been increasing 10 to 15 percent a year ever since 1975, largely led by soybean and palm oil. With further increases likely in per capita income and an expanding fast food industry, this trend should continue.

Almost all of Korea's commercial food use of soybeans and crushing needs have been met by imports, due to limited domestic production. In 1983, imports of soybeans rose 28 percent over the year earlier. This year's gain may not be quite as pronounced, because of a slowdown in the livestock industry which is trimming demand for meal. The United States supplies virtually all of Korea's imported soybeans—and is expected to continue to dominate this market in the years ahead.—*James K. Freckmann, Agricultural Counselor, Seoul.*

Malaysia

High Palm Oil Prices Encourage Soyoil Use

The inversion of palm and soybean oil prices this year has stimulated interest among Malaysian vegetable oil processors in incorporating soybean oil as an extender of mass market palm-based frying oil. Although it is not likely that soyoil will continue to be used once palm-complex prices begin to fall, there is long-term potential for increased soybean oil use in shortenings. In fact, one or more manufacturers will probably be making part-soy hydrogenated products before the year is out.—*Daniel Conable, Agricultural Attache, Kuala Lumpur.*

Singapore

Change in Meat Import Rules Threatens U.S. Broiler Sales

The recent addition of Belgium and Brazil to the list of countries eligible to sell frozen chicken to Singapore means U.S. exporters should expect much stiffer competition in that marketplace. Singapore was the second largest U.S. market for broilers in 1983, taking roughly $25 million, or roughly a tenth of total U.S. exports.

Singapore's imports of frozen chickens from the United States are already on the decline, dropping about a fourth to 22,233 metric tons in 1983. In contrast, low wholesale prices stimulated imports from a number of European Community (EC) countries. Imports from the Netherlands, for example, rose nearly 40 percent and those from Denmark increased by about 44 percent.

Stiff competition from China, Thailand and France—other new import sources—also threaten to further erode the U.S. market share.—*James Iso, Agricultural Trade Officer, Singapore.*

Sweden

Ethanol Production Project Launched

After many years of research, Sweden has opened a plant for production of ethanol out of biomass. Production is based on wheat and about 20,000 tons will be processed in 1984. Projected capacity is 20,000 liters of ethanol a day, which will be used as a 5-percent admixture in gasoline.

The special processing method which will be used in the plant is expected to turn one ton of wheat into more than 300 liters of ethanol, about 300 kilograms of carbonic acid and 400 kilograms of animal feed where the protein content is twice that of grain. If supply and demand forecasts prove realistic, it is possible that a sugar refinery in the same general area will also be converted to an ethanol plant.

By the end of the 1980's, Sweden may have several large-scale plants for ethanol production from grain, sugarbeets and potatoes, and possibly also from forest wastes and straw.—*William P. Huth, Agricultural Attache, Stockholm.*

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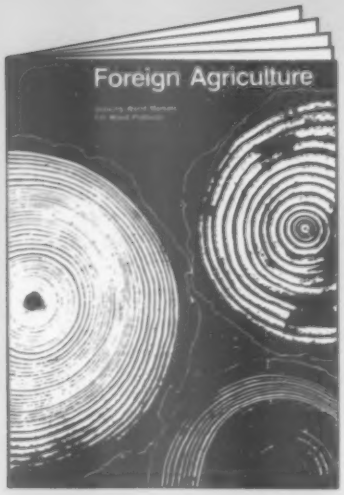

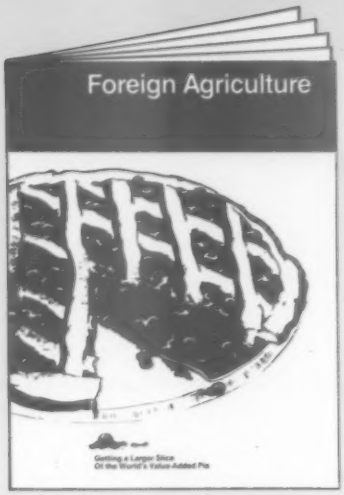

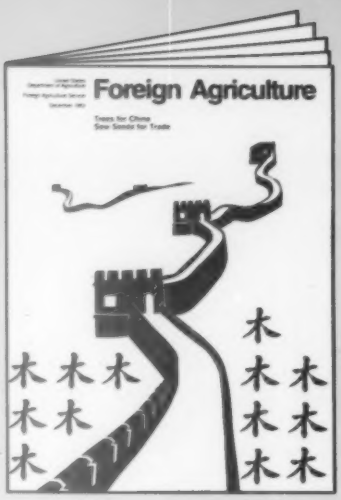

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